

EVALUATION OF THE CERTIFICATE OF NEED APPLICATION SUBMITTED ON BEHALF OF HOSPICE OF SPOKANE PROPOSING TO AMEND CERTIFICATE OF NEED #1291 DUE TO A CHANGE IN THE APPROVED SITE AND REDUCE THE NUMBER OF APPROVED HOSPICE CARE CENTER BEDS FROM TWENTY TO TWELVE

PROJECT DESCRIPTION

Hospice of Spokane is a Washington State private, not-for-profit corporation and a 501(c)(3) exempt organization. Hospice of Spokane (HoS) is located at 121 South Arthur Street, in the city of Spokane within Spokane County. HoS has been providing Medicare and Medicaid hospice services to the residents of Spokane, Stevens, Ferry, and Pend Oreille counties since its inception in 1992. [CN historical files: HoS facility file and department's July 15, 2003, initial evaluation]

On July 15, 2003, HoS was issued an "Intent to Issue a Certificate of Need" approving the establishment of a hospice care center in the city and county of Spokane.¹ The July 15 approval consisted of 20 hospice care center beds to be located at 610 North Conklin in Spokane. On August 13, 2004, Certificate of Need (CN) #1291 was issued to HoS for the project. The approved capital expenditure associated with CN #1291 is \$5,360,450. Given that the majority of the funding for the 20-bed hospice care center would be obtained from fundraising efforts and community donations, throughout the implementation of CN #1291, HoS has maintained communication with the community regarding the project. Approximately September 2005, HoS and the community re-evaluated the approved project and the funding necessary to implement CN #1291. That re-evaluation prompted HoS to conclude that a lesser number of hospice care center beds would meet the needs of the community for the short-term and a more centrally located site was preferable to the North Conklin site. As a result, HoS began efforts to find a site nearer downtown Spokane and closer to other medical services in the county. A new site was obtained and the project was ultimately downsized from 20 beds to 12 beds. [source: Application, p1, CN historical files: Progress Reports filed for CN #1291] As a result, this amendment application was necessary.

This application proposes to amend CN #1291 because of a change in the approved site. The new site is 367 East 7th Avenue in the city and county of Spokane. The number of hospice care center beds has been reduced from 20 to 12. The change in site and reduction in the number of beds has reduced the capital expenditure from the approved \$5,360,450 to \$5,297,421. [source: Application, p28]

APPLICABILITY OF CERTIFICATE OF NEED LAW

This project is subject to CN review under Revised Code of Washington (RCW) 70.38.105(4)(a) and WAC 246-310-570(1)(e) and (f) because the approved site for the project authorized by CN #1291 has changed and the scope of the project has significantly been reduced, however, a proportional reduction in the capital costs has not occurred.²

¹ In accordance with WAC 246-03-030(4), the department may not issue a Certificate of Need for a new healthcare facility until it has received a copy of a determination of non-significance or a final environment impact statement pertaining to the site. The department may, however, commit to issuing the Certificate of Need.

² The explanation for the disproportionate decrease in capital costs is addressed in the financial feasibility review within this evaluation.

APPLICATION CHRONOLOGY

November 15, 2005	Letter of Intent submitted
March 31, 2006	Application submitted
April 1, 2006 through April 24, 2006	Department's Pre-Review Activities <ul style="list-style-type: none">• 1st screening activities and responses
April 25, 2006	Department Begins Review of the Amendment Application <ul style="list-style-type: none">• public comments accepted throughout review
May 15, 2006	Reviewed under expedited review timeline; no public hearing conducted
May 30, 2006	End of Public Comment
June 19, 2006	Rebuttal Documents Submitted to Department
June 16, 2006	Department's Anticipated Decision Date
	Department's Actual Decision Date

AFFECTED PARTIES

Throughout the review of this project, no entities sought and received affected person status as defined in WAC 246-310-010.

SOURCE INFORMATION REVIEWED

- Hospice of Spokane's Certificate of Need Application submitted March 31, 2006
- Hospice of Spokane's supplemental information dated April 17, 2006
- Licensing and/or survey data provided by the Department of Health's Office of Health Care Survey
- Progress Reports completed and submitted by Hospice of Spokane related to CN #1291
- Certificate of Need historical files

CRITERIA EVALUATION

The review for an amendment project is limited to only those criteria that would be affected by the amendment, provided that the amendment does not alter the basic justification for the initial approval. Based on information presented in this amendment application, the relocation and reduction in the number of approved beds for the hospice care center does not alter the initial justification for the project. Therefore, to obtain CN approval for the change in site, Hospice of Spokane must demonstrate compliance with the relevant criteria found in WAC 246-310-220 (financial feasibility); WAC 246-310-230 (structure and process of care); and WAC 246-310-240 (cost containment). Given that the applicant is proposing to reduce the number of approved hospice care center beds from 20 to 12, the department must re-evaluate whether the 12 hospice care center beds would be supported by the hospice agency's current utilization. As a result, the department must also review the relevant criteria found in WAC 236-310-210 (need).³

³ Each criterion contains certain sub-criteria. The following criterion and sub-criteria are not discussed in this evaluation because they are not relevant to this amendment project: WAC 246-310-210(3), (4), (5), and (6).

CONCLUSION

For the reasons stated in this evaluation, the Hospice of Spokane proposal to relocate the approved hospice care center to a new site at 367 East 7th Avenue in the city and county of Spokane is consistent with applicable criteria of the Certificate of Need Program. Further, Hospice of Spokane's proposal to reduce the number of approved hospice care center beds from 20 to 12 is consistent with the applicable criteria of the Certificate of Need Program. An amended Certificate of Need shall be issued. The expiration date of the amended Certificate of Need shall remain August 13, 2006.

The approved estimated capital expenditure for this project is reduced to \$5,297,421.

A. Need (WAC 246-310-210)

Based on the source information reviewed, the department determines that the criteria in WAC 246-310-210 (need) and WAC 246-310-295 (hospice care center standards) are met.

- (1) *The population served or to be served has need for the project and other services and facilities of the type proposed are not or will not be sufficiently available or accessible to meet that need.*

The department uses the methodology found in WAC 246-310-295 in determining need for a hospice care center within a planning area. The six-step methodology is used to demonstrate that an existing hospice's patient base is sufficient to support a hospice care center by using existing use rates for hospice services, average number of resident deaths by planning area (county) for the most recent three years, and the projected population of the planning area.

Within its initial application, HoS applied the six-step methodology using its most recent hospice data (2000-2003) and provided documentation to demonstrate that its existing patient base is sufficient to support a hospice care center. Additionally, using the required minimum occupancy rate of 65%, HoS projected its patient base could support 35 hospice care center beds. Given that RCW 70.127.280(1)(e) limits the number of beds in a hospice care center to 20, HoS submitted its initial application and was subsequently approved to establish a 20-bed hospice care center. [source: CN historical files: HoS initial application, pp42-43]

Within this amendment application, HoS must demonstrate need for the project based on its most recent hospice data. HoS applied the six-step methodology outlined in WAC 246-310-295 and provided documentation to demonstrate that its existing patient base is sufficient to support a hospice care center using historical years 2003 through 2005 data. Using the required minimum occupancy rate of 65%, HoS projected a patient base that could support 45 hospice care center beds. [source: April 17, 2006, supplemental information, p2] As previously stated, this application requests to reduce the approved number of hospice care center beds from 20 to 12.⁴ [source: Application, p12]

The department also applied the methodology, evaluated the assumptions provided by the applicant, and determined that the applicant's projections are reasonable, and the documentation effectively demonstrates the potential patient base for the proposed hospice care center.

Additionally, WAC 246-310-295(8) sets forth minimum occupancy requirements and requires a demonstration of maintaining the minimum occupancy rate at the hospice care center. HoS provided documentation to demonstrate its ability to meet these occupancy requirements. [source: April 17, 2006, supplemental information, p2]

WAC 246-310-295(9)(a) requires no more than 49% of the hospice agency's patient care days, in the aggregate on a biennial basis, can be projected to be provided in the hospice care center. HoS provided documentation to demonstrate its ability to meet this standard. [source: April 17, 2006, supplemental information, p2]

⁴ Hospice of Spokane recognizes that this amendment application relinquishes its rights to add the remaining eight CN hospice care center beds approved under CN #1291. Page 12 of the application provides the following confirmation of this understanding: "We fully plan to add eight (8) additional beds in the future and understand that we will need to receive an additional certificate of need approval prior to doing so."

Currently, there are no hospice care centers located within Spokane, Stevens, Ferry, or Pend Oreille counties. For in-home hospice services, there are three Medicare certified providers that serve Spokane County--Hospice of Spokane, Horizon Hospice, and Touchmark Living Centers. However, only one of the providers--the applicant, Hospice of Spokane--provides Medicare certified hospice services in Stevens, Ferry, and Pend Oreille counties, in addition to Spokane County. The availability of a hospice care center in Spokane County would enable some patients to obtain hospice services that may otherwise be unavailable or not specifically designed for hospice patients, thereby, promoting continuity of care for those patients. Further, approval of this project would not affect the availability of the current in-home hospice services provided by any of the in-home hospice agencies serving Spokane County.

Based on the information provided in the application, the department concludes that the population to be served has a need for a hospice care center in Spokane County, and this sub-criterion is met.

- (2) All residents of the service area, including low-income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups and the elderly are likely to have adequate access to the proposed health service or services.

In its July 15 2003, initial evaluation, the department obtained copies of HoS's Admission and Charity Care policies to be used at the hospice care center. The policies demonstrated that patients would be admitted to the care center for treatment without regard to age, race, color, religion, sex, national origin, handicap, or sexual preference and will be treated with respect and dignity. [source: CN historical files: Initial application, Exhibit 6; and March 10, 2002, supplemental information, Attachment 3]

Within the amended application, there was no additional information provided that would change this conclusion. For this amended project, the department maintains that approval of this project would not negatively affect the access to the hospice services provided through the agency, and the proposed in center hospice services would be available to all residents of the service area. This sub-criterion is met.

B. Financial Feasibility(WAC 246-310-220)

Based on the source information reviewed, the department determines that the applicant has met the financial feasibility criteria in WAC 246-310-220.

- (1) The immediate and long-range capital and operating costs of the project can be met.

In its July 15, 2003, evaluation supporting the issuance of CN #1291, the department concluded that this sub-criterion was met based on the following factors:

- 1) the project would be financed through a combination of fundraising (80%) and HoS reserves (20%);
- 2) a review of HoS's historical audited financial report; and
- 3) a review of the proposed hospice care center's projected patient utilization, including proposed revenues, expenses, and net profit.

The department's review of the initial project acknowledged that \$1.3 million of the fundraising dollars had already been set aside or pledged to HoS for the project. A review of HoS's historical financial data supported the department's conclusion that HoS had the funds to finance at least 20% of the capital costs through its reserves. Further, HoS provided contingency plans for funding if any

portion of the dollars were not obtained through its fundraising efforts. [source: CN historical files: Initial application, p17, 53, & 54; March 10, 2003, supplemental information, p6 and Attachments 1 & 7]

In the initial application, HoS provided a copy of the signed purchase and sale agreement for the initial 10.3 acre site at 641 North Conklin in Spokane. The agreement became effective January 7, 2000, and identified the cost of the site to be \$600,000, including any earnest monies previously paid by the applicant. [source: CN historical files: Initial application, Exhibit 3]

Within this amendment application, HoS provided a copy of a signed purchase and sale agreement for the new site at 367 East 7th Avenue in Spokane. The signed agreement would become effective provided that this project is approved and a Certificate of Need is issued for the relocation of the hospice care center. The City of Spokane has already provided documentation demonstrating that the site is appropriately zoned for hospice care center. [source: Application, p17 & Exhibit 3; April 17, 2006, supplemental information, p6 & Attachment 6]

As previously stated, the change in site and reduction in the number of beds from 20 to 12, reduces the capital expenditure from the approved \$5,360,450 to \$5,297,421. A review of HoS's year 2005 historical financial data reveals that HoS would have the funds to finance the project through its reserves. [source: Application, p28 and April 17, 2006, supplemental information, Attachment 4]

In the initial application, HoS provided its projected utilization, revenue, and expenses for the 20-bed care center. Within this amendment application, HoS provided the 12-bed hospice care center's projected utilization, income/expense statements, and balance sheets. A summary of those projections is shown in Table I below. [source: Application, p14 and Exhibit 4]

Table I
Hospice of Spokane Hospice Care Center
Projected Revenue and Expenses For Years 2008 - 2011

	Year 1 - 2008	Year 2 - 2009	Year 3 - 2010	Year 4 - 2011
# of Beds	12	12	12	12
# of Admissions	75	105	105	105
Total Patient Days	2,190	3,650	3,650	3,650
Utilization Percentage	50%	83%	83%	83%
Total Net Revenue*	\$ 627,000	\$ 1,044,000	\$ 1,416,000	\$ 1,789,000
Total Expenses	\$ 1,452,000	\$ 1,346,000	\$ 1,340,000	\$ 1,334,000
Net Profit or (Loss)	(\$ 825,000)	(\$ 302,000)	\$ 76,000	\$ 455,000
Total Revenue per Patient Day	\$ 286.30	\$ 286.03	\$ 387.95	\$ 490.14
Total Expenses per Patient Day	\$ 663.01	\$ 368.77	\$ 367.12	\$ 365.48
Net Profit Patient Day	(\$ 376.71)	(\$ 82.74)	\$ 20.82	\$ 124.66

*Includes deductions for bad debt, charity care, and contractual allowances

As shown in Table I above, with deductions for both bad debt and charity care, the 12-bed hospice care center would be operating at a loss in years one and two. By the end of year three, the care center would be operating at a net profit, which increases by the end of year four. Based on the information above, the department concludes that the immediate and long-range operating costs of the project can be met as a 12 bed hospice care center. This sub-criterion is met.

(2) The costs of the project, including any construction costs, will probably not result in an unreasonable impact on the costs and charges for health services.

In the initial evaluation, the department compared the hospice care center’s proposed costs and charges to the average costs and charges of previously approved hospice care centers and concluded that they are reasonable. [source: CN historical files: Initial evaluation, p7] Within the amended application, there was no additional information provided that would change this conclusion.

Based on the information provided above, the department concludes that the cost of the project identified in the amended application will not result in an unreasonable impact on the costs and charges for health services within the service area. This sub-criterion is met.

(3) The project can be appropriately financed.

The approved capital expenditure associated with CN #1291 authorizing the establishment of the 20-bed hospice care center is \$5,360,450, and of that amount, approximately 80% was related to site purchase and preparation and construction of the care center. [source: CN historical files: Initial application, pp53-54]

In this amendment application, HoS provided a revised capital expenditure breakdown for the project, with revised funding sources. HoS estimates a capital expenditure of \$5,297,421 to establish the 12-bed hospice care center at the new site. Table II below shows a cost comparison for the 20 bed- initial project and this 12-bed amended project. [source: Application, p28]

**Table II
Hospice of Spokane Hospice Care Center
Estimated Capital Expenditure Breakdown**

Description	Initial 20-bed HCC	Amended 12-bed HCC
Construction Costs	\$ 3,548,711	\$ 3,032,000
Land Purchase & Site Preparation	600,000	740,000
Fees & Permits	456,392	817,021
Equipment (moveable and fixed)	388,513	312,300
Washington State Sale Tax	278,824	283,400
Other Project costs	88,010	112,700
Total	\$ 5,360,450	\$ 5,297,421

HoS provided the following explanation related to the disproportionate decrease in capital costs.

“The capital expenditures for the original hospice care center were prepared in 2003. Since that time, the costs for construction have risen significantly. The land cost for the new site is comparable to the land cost for the original site. Based on increases in construction costs experienced since 2003 and projecting costs to a midpoint of construction in 2007, we estimate a 25% to 30% decrease in cost. Additionally, a 40% decrease in beds translates to about a 25% decrease in total building area. This is due to the common areas and support areas that must be provided regardless of the number of beds.”

As shown in Table II above, while the amended project has experienced some decrease associated with the smaller number of beds, two categories--“fees & permits” and “other project costs” have increased. A comparison of the “fees & permits” category reveals that consulting fees experienced a 340% increase from the initial project to this amended project. “Other project costs”--which include sewer and utilization connections, the addition of a new traffic signal at the site--resulted in a 28%

increase in costs. Based on the information summarized above regarding the amended capital costs, the department concludes that the capital costs for the 12-bed hospice care center is reasonable.

In the initial application, HoS anticipated that the majority of the capital expenditure--approximately 80%--would come from the fundraising campaign, with the remaining 20% from HoS reserves. [source: CN historical files: Initial application, pp53-54] Additionally, in the initial application, HoS provided contingency plans for funding if any portion of the dollars was not obtained through fundraising efforts. One of the contingency plans was that HoS would fund the entire project through its capital reserves. A review of HoS's historical financial information indicated that the funds necessary to finance the entire project were available if needed. [source: CN historical files: Initial Application, March 10, 2003, supplemental information, p6]

For this amendment application, HoS again plans to fund the project primarily with dollars obtained from fundraising/donations. As of the submission of this amendment application, approximately \$2 million (38%) of the needed dollars have been set aside or pledged for this project. Additionally, HoS provided contingency plans for funding if any portion of the dollars is not obtained through fundraising efforts. One of the contingency plans is that HoS would fund the dollars not acquired through fundraising from capital reserves. A review of HoS's 2005 historical financial information shows the funds necessary to finance the entire project are available if needed. [source: Application, p29; and April 17, 2006, supplemental information, p4 & Attachment 2]

As a result, for this amendment application, the department concludes that the proposed financing is appropriate, and this sub-criterion is met.

C. Structure and Process (Quality) of Care (WAC 246-310-230)

Based on the source information reviewed, the department determines that the applicant has met the structure and process (quality) of care criteria in WAC 246-310-230.

(1) A sufficient supply of qualified staff for the project, including both health personnel and management personnel, are available or can be recruited.

In its July 15, 2003, initial evaluation, the department concluded that a sufficient supply of qualified staff would be available or recruited to staff the 20-bed hospice care center. [source: CN historical files: Initial evaluation, p7] Given that the number of beds has been reduced to 12, HoS provided new staffing projections within this amended application.

Historically, HoS has staffed its hospice agency based on patient census, and intends to use the same staffing model for the hospice care center. In the case of this amended project, HoS projects a total of 18.51 FTEs will be needed in the first three years of operation for the hospice care center. Table III on the following page shows the FTEs projected for the establishment of the 12-bed hospice care center. [source: Application, p21]

**Table III
Hospice of Spokane
Hospice Care Center Projected FTEs**

Type of Personnel	Projected FTEs
RN	5.04
Nursing Assistants	7.50
LPN	2.52
Medical Social Worker	0.60
Volunteer Coordinator	0.15
Food Service	0.90
Housekeeping/Laundry	0.60
Maintenance	0.60
Pharmacist	0.30
Supply Clerk	0.15
Medical Director	0.15
Total FTEs	18.51

HoS anticipates after the initial recruitment of 18.51 FTEs, no further FTE increases are anticipated. Given that the hospice care center will not be operational until year 2008, HoS has not yet hired staff for the care center. However, a staffing plan and FTE recruitment plan to demonstrate that HoS will ensure adequate staff will be available at the hospice care center was provided in the application. [source: Application, p36]

In the initial application, HoS identified Pierre Soffe, MD as the current medical director of the hospice agency and the proposed medical director for the 20-bed hospice care center. [source: CN historical files: Initial application, March 10, 2003, supplemental information, p1] Within this amended application, HoS still anticipates that Dr. Soffe would assume the medical director responsibilities. Dr. Soffe is employed by HoS, therefore, there is no contract for medical directorship. [source: Application, pp37-42]

Based on the above evaluation, the department concludes this sub-criterion remains met.

- (2) The proposed service(s) will have an appropriate relationship, including organizational relationship, to ancillary and support services, and ancillary and support services will be sufficient to support any health services included in the proposed project.

In the initial application, there were several contracts and ancillary agreements provided for the department's review. In its July 15, 2003, evaluation, the department recognized HoS as an existing provider of in-home hospice services in the community, and acknowledged that the HoS already had appropriate relationships with all necessary ancillary and support services needed for its hospice agency. Further, the department acknowledged that the existing agreements would incorporate the new center by reference. [source: CN historical files: Initial application, p69]

Within the amended application, there was no additional information provided that would change this conclusion. This sub-criterion remains met.

- (3) There is reasonable assurance that the project will be in conformance with applicable state licensing requirements and, if the applicant is or plans to be certified under the Medicaid or Medicare program, with the applicable conditions of participation related to those programs.

As a Medicare certified hospice agency, HoS provides hospice services to the residents of Spokane, Stevens, Ferry, and Pend Oreille counties. In its July 15, 2003, evaluation, the department concluded that HoS would continue to operate its existing hospice agency in conformance with applicable state and federal licensing and certification requirements. Further the department concluded that the addition of a new hospice care center in Spokane County would not negatively affect HoS's historical quality of care. [source: CN historical files: Initial evaluation, p10]

Within the most recent five years, the Department of Health's Office of Health Care Survey (OHCS), which surveys hospice agencies within Washington State, has completed one compliance survey for agency.⁵ The survey revealed minor non-compliance issues typical of a hospice agency, and HoS submitted a plan of corrections for the non-compliance issues within the allowable response time. [source: Compliance survey data provided by Office of Health Care Survey]

As previously stated, the current medical director for HoS--Pierre Soffe, MD--will be the medical director at the hospice care center. A review of Dr. Soffe's compliance history with the Department of Health's Medical Quality Assurance Commission reveals no recorded sanctions. [source: compliance history provided by Medical Quality Assurance Commission]

Given the compliance history of both the hospice agency and the proposed medical director for the hospice care center, there is reasonable assurance that the applicant would operate the 12-bed hospice care center in conformance with applicable state and federal licensing and certification requirements. This sub-criterion is met.

- (4) The proposed project will promote continuity in the provision of health care, not result in an unwarranted fragmentation of services, and have an appropriate relationship to the service area's existing health care system.

In its July 15, 2003, evaluation, the department concluded that the project would promote continuity in the provision of health care with the existing providers in the community. [source: CN historical files: Initial evaluation, p11] Changing the location of the hospice care center does not change the department's conclusion regarding this criterion. This sub-criterion remains met.

- (5) There is reasonable assurance that the services to be provided through the proposed project will be provided in a manner that ensures safe and adequate care to the public to be served and in accord with applicable federal and state laws, rules, and regulations.

This sub-criterion is addressed in sub-section (3) above and is considered met.

⁵ Survey conducted in year 2006.

D. Cost Containment (WAC 246-310-240)

Based on the source information reviewed, the department determines that the applicant has met the cost containment criteria in WAC 246-310-240.

(1) Superior alternatives, in terms of cost, efficiency, or effectiveness, are not available or practicable.

In its July 15, 2003, initial evaluation, the department concluded that the HoS project was the best option for the community, resulting in an approval for the 20-bed hospice care center. [source: CN historical files: Initial application, pp72-73; and March 10, 2003 supplemental information, pp12-13] As stated in the project description portion of this evaluation, this amendment application proposes to change the site and reduce the number of approved beds from 20 to 12. Before submitting this application, HoS considered and rejected the following two options. [source: Application, p41] Below is a summary of HoS's evaluation related to each option.

Continuing to implement the project as approved under CN #1291

HoS rejected this option after performing a comprehensive evaluation that identified the new site closer to other medical services in the county is viewed by the community and HoS supporters to be superior to the initial site on North Conklin Street. As a result, this option was dismissed for the amendment project under review.

Relinquish CN #1291 and submit a new application

HoS indicates that this option was initially considered, however, starting the entire process over would not benefit the community, rather, it would prolong the establishment of a hospice care center by at least an additional year. Further, HoS's capital fundraising campaign is already underway and working drawings are almost ready for submittal to the department's Construction Review Unit to begin the approval process. As a result, this option was also dismissed for the project under review.

Based on the information provided in the amendment application related to the rationale for the change in site, the department maintains that the site change is appropriate. Further, the department's review concludes this amendment application meets the criteria of need, financial feasibility, and structure and process of care, and further concurs with HoS's rejection of the two alternatives considered before submitting this amendment application. Based on the above evaluation, the department concludes that this project remains the best available alternative for this community, and this sub-criterion is met.

(2) In the case of a project involving construction:

(a) The costs, scope, and methods of construction and energy conservation are reasonable; and

In the initial evaluation for this project, the department concluded that the construction costs are reasonable when compared to construction costs of recent hospice care center proposals. [source: CN historical files: Initial application, p17 & 74] Within the amended application, there was no additional information provided that would change this conclusion. Therefore, the department concludes that this criterion is met.

(b) The project will not have an unreasonable impact on the costs and charges to the public of providing health services by other persons.

This sub-criterion is re-evaluated within the financial feasibility criterion under WAC 246-310-220(2) and is considered met.